

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Investigation by the Department of)	
Telecommunications and Energy on Its Own)	D.T.E. 02-40
Motion into Default Service.)	
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**REPLY COMMENTS OF
WESTERN MASSACHUSETTS ELECTRIC COMPANY**

On June 21, 2002, the Department of Telecommunications and Energy (“Department”) issued an Order opening a Notice of Inquiry into the provision of default service. On July 23, 2002, the Department held a public hearing and technical session. On August 9, 2002, Western Massachusetts Electric Company (“WMECO”) and other interested parties submitted initial comments. Pursuant to the procedural schedule, WMECO respectfully submits the following reply comments.

Default Service Should Be Reasonably Priced

In reviewing parties’ initial comments, one goal being advocated by the parties is that default service should be reasonably priced. To date, the present default service procurement process has been achieving this goal. Distribution companies procure default service on a competitive basis in the wholesale generation market and flow these wholesale costs back to default-service customers. As stated in WMECO’s original comments, an independent evaluator has found that WMECO’s process has resulted in a competitive-bidding process

which resulted in reasonable prices for default-service customers. Reasonable default-service prices are presently being achieved to meet the first goal.

Default Service Should Encourage Competitive Market Migration

A second goal that has been discussed is that default service should be provided in such a way that default-service customers are encouraged to enter the competitive marketplace.

Parties advocating this second goal have presented a number of ways to encourage customer migration from default service to the competitive marketplace. One approach being advocated is to “assign” customers to a competitive default-service provider. This approach raises a number of customer protection concerns. WMECO restates its opposition to any proposal that would assign default-service customers to other competitive suppliers.

A second approach being advocated is to ensure that all of the costs of providing default service are reflected in the default-service price that customers pay. WMECO supports including administrative costs as part of the default service rate in the future; however, when figuring these costs, no full-blown rate-case proceeding should be triggered. Previously in D.T.E. 99-60, WMECO suggested an adjuster mechanism methodology that included incremental costs without performing a full rate case.

WMECO’s initial comments contained a proposal that would allow distribution companies to collect a service fee on the energy that they provide as the default-service provider. WMECO Comments at 5. This will have the default-service price better mimic a retail price, thus, it helps put default-service pricing on a retail basis. One way to accomplish this would be to establish an incentive-based mechanism that rewards distribution companies that help expedite the migration of customers into the competitive marketplace. The incentive

could be modeled similar to those provided for successful conservation and load management (“C&LM”) programs. This model would be attractive because one of the goals for C&LM programs is market transformation and one of the goals being advocated here is competitive market penetration.

Conflicting Default Service Goals

A cursory review of the two goals stated above shows the potential for conflict. Keeping default-service prices as reasonable as practical may provide an incentive for customers to remain on default service rather than switch to the competitive market. Adding costs to default service may make the price higher, enticing customers to switch to the competitive marketplace, but might also make the default-service price seem unreasonable. The approach suggested by WMECO above, allowing the distribution company to collect an incentive based on customer migration, may allow a balancing of these conflicting goals.

Default Service Pricing Options

Nothing in the comments reviewed to date has caused WMECO to alter its position that the current default service fixed and variable pricing options should be maintained. WMECO does not object to having a one-year fixed price option because a one-year fixed price option may also help reduce administrative costs. This would ultimately reduce the costs included in default-service prices which supports the first goal stated above.

Procurement Schedules and Strategies

WMECO proposes to maintain its current procurement schedule and strategy. Changing to more frequent solicitations for longer periods of time may increase the migration

risk to default-service providers. This risk will be passed on to customers in higher default-service prices.

The procurement schedule proposed by the Division of Energy Resources (“DOER”) would have WMECO performing default-service solicitations every three months. The current timeline for WMECO to administer a power supply solicitation from beginning to end is about three months. Thus, implementing DOER’s proposal in the near term, while standard offer service is still being offered, will effectively double WMECO’s administrative costs for energy procurement. Therefore, this is not an attractive alternative at this time.

Conclusion

WMECO believes that the distribution company should continue as the provider of last resort service in the near term with some changes as described above. WMECO appreciates the opportunity to submit these reply comments and will continue to participate in this proceeding.